



February 11, 2013

Stacey Preis, Ph.D.
Executive Director
Joint Committee on Education
Rm. 502, State Capitol Bldg.
Jefferson City, MO 65101

Dear Dr. Preis:

Thank you for the opportunity to provide feedback on the second version of the Joint Committee's funding model. Our feedback is largely consistent with the comments and suggestions we have previously provided.

While there are a few quick items that we view as positives in terms of the changes that are included below, our main feedback involves two larger policy issues.

Primary Incentives

- Consistent with the feedback we provided following Dr. Baumgartner's CCA presentation to the joint committee, there is still a deep concern with the overarching incentive this model places in front of institutions to simply grow student headcounts.
- The largest driver of the model is the "instruction" category which is driven by credit hours completed. While there could be some marginal gains to be made if current students each complete a few more credit hours, the real gains would come from aggressively growing one's student body to generate more credit hour completions, and thus more state funding.
- This same incentive directly drives the public service and student service categories and indirectly drives the other expenditure categories, with the exception of research. While it is not inconsistent with statewide goals to increase student headcounts, basing the state's funding policy on such a blunt, input-only factor is not consistent with the overwhelming trend in higher education finance towards outcomes-based funding policies.

No Plan for "Real Life" Distribution

The spreadsheets that were released with the revised model show how an additional \$389 million above the current appropriation would be distributed among the institutions. However, the state is obviously not likely to have that amount of money to invest in the next fiscal year, or over the course of the next several fiscal years. Thus it is both necessary and crucial for the model to provide a mechanism for distributing whatever amount of money is actually available.

In other words, how will the model actually function in real life? This fundamental question remains unanswered and the appropriateness and viability of the model simply cannot be fully evaluated without an answer.

This is of particular concern because even if the state were to add \$389 million there is one institution that would see a cut in its appropriation. So clearly, at a greatly reduced funding level (the current appropriation, or plus a much smaller increase) there would likely be several institutions that would see annual 2 percent cuts for several years (at worst) or no increases for several years (at best) while the state added money to the overall system. Perhaps there are ways of implementing a proration factor that would prevent this result; however, it remains a major concern if the issue is not addressed.

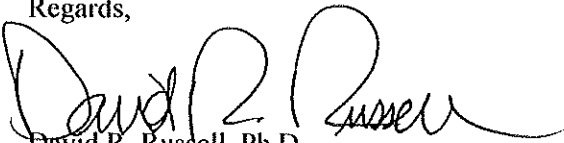
Aside from those two fundamental concerns, some positive changes presented in this version include:

- Utilizing a differential expectation of state support rather than the uniform 35 percent that was used in the initial model.
- Reducing the annual stop-loss provision to two percent rather than five percent, although it is still our position that it is neither productive nor appropriate to cut the appropriation to one of our institutions in order to provide an increase for another.
- Utilization of a weighting scheme to acknowledge the additional costs often associated with serving low-income or under-represented students.

Lastly, while a move to reduce the amount of the base that is at risk through performance funding is also a move in the right direction, we simply cannot support the use of performance funding as a lose-only proposition. Such an approach is inconsistent with the ground rules that were in place when the measures were adopted by the Coordinating Board for Higher Education, and will not serve to provide the proper support and encouragement to institutions that are striving to meet state goals.

Thank you for the opportunity to provide feedback on this part of the process. MDHE staff and I look forward to continuing the dialogue as this important initiative evolves.

Regards,



David R. Russell, Ph.D.
Commissioner of Higher Education